LEGALITIES & TAX ADVANTAGES IN A HOME BUSINESS

Every year, several thousand people develop an interest in "going into business." Many of these people have an idea, a product or a service they hope to promote into an in come producing business which they can operate from their own homes.

If you are one of these people, here are some practical thoughts to consider b fore hanging out the "Open-for-Business" sign.

In areas zoned "Residential Only," your proposed business could be illegal. In many areas, zoning restrictions rule out home businesses involving the coming and going of many customers, clients or employees. Many businesses that sell or even store any thing for sale on the premises also fall into this category.

Be sure to check with your local zoning office to see how the ordinances in your particular area may affect your business plans. You may need a special permit to operate your business from your home; and you may find that making small changes in your plan will put you into the position of meeting zoning standards.

Many communities grant home occupation permits for businesses that involve typing, sewing and teaching, but turn thumbs down on requests from photographers, interior decorators and home-improve ment businesses to be run from the home. And often, even if you are permitted to use your home for a given business, there will be restrictions that you may need to take into consideration. By all means, work with your zoning people, and save yourself time, trouble and dollars.

One of the requirements imposed might be off-street parking for your customers or patrons. And, signs are generally forbidden in residential districts. If you teach, there is almost always a limit on the number of students you may have at any one time.

Obtaining zoning approval for your business, then, could be as simple as filling out an application, or it could involve a public hearing. The important points the zoning officials will consider will center around how your business will affect the neighborhood. Will it increase the traffic noticeably on your street? Will there be a substantial in crease in noise? And how will your neighbors feel about this business alongside their homes?

To repeat, check into the zoning restrictions, and then check again to determine if you will need a city license. If you're selling something, you may need a vendor's license, and be required to collect sales taxes on your transactions. The sales tax requirement would result in the need for careful record keeping.

Licensing can be an involved process, and depending upon the type of business, it could even involve the inspection of your home to determine if it meets with local health and building and fire codes. Should this be the case, you will need t o bring your facilities up to the local standards. Usually this will involve some simple repairs or adjustments that you can either do personally, or hire out to a handyman at a nominal cost.

eBusiness Help Center

Downloaded at www.ebusinesshelpcenter.com
Thousands of eCommerce & eMarketing eBooks
100% FREE downloads!

Plus Resources To Guarantee Your Success
With Your New Or Existing Online Business

Free Website Hosting
Free Traffic Generators
Free Advertising
Free E-book Compilers
Free HTML Editors
Free FTP Software
Free Email Auto-Responders
Free Bulk Email Software
Free Up-to-Date 75 Million Opt-In Email Lists
Free Web Positioning Tips
Free Ready to Go Turnkey Websites
Free Replicate Any Website
Free How-to Tutorials for Everything

Small membership fee then everything is

FREE!!!

Still more items to consider: Will your homeowner's insurance cover the property and liability involved in your new business? This must definitely be resolved, so be sure to talk it over with your insurance agent.

Tax deductions, which were once one of the beauties of engaging in a home business, are not what they once were. To be eligible for business related deductions today, you must use that part of your home claimed exclusively and regularly as either the principal location of your business, or the place reserved to meet patients, clients or customers.

An interesting case in point: If you use your den or a spare bedroom as the principal place of business, working there from 8:00 to 5:00 every day, but permit your children to watch TV in that room during the evening hours, the IRS dictates that you cannot claim a deduction for that room as your office or place of business.

There are, however, a couple of exceptions we will note to the "exclusive use" rule. One is the storage of inventory in your home, where your home is the location of your trade or business, and approval for your business, then, could be as sour trade or business is the selling of products at retail or wholesale. According to the IRS, such storage space must be used on a regular basis, and be a separately identifiable space.

Another exception applies to day care services that are provided for children, the elderly, or physically or mentally handicapped. This exception applies only if the owner of the facility complies with the state laws for licensing.

To be eligible for business deductions, your business must be an activity under taken with the intent of making a profit. It's presumed you meet this requirement if your business makes a profit in any two years of a five-year period.

Once you are this far along, you can deduct business expenses such as supplies, subscriptions to professional journals, and an allowance for the business use of your car or truck. You can also claim deductions for home related business expenses such as utilities, and in some cases, even a new paint job for your home.

The IRS is going to treat the part of your home you use for business as though it were a separate piece of property. This means that you'll have to keep good records and take care not to mix business and personal matters. No specific method of record keeping is required, but your records must clearly justify any deductions you claim.

You can begin by calculating what percentage of the house is used for business, either by number of rooms or by area in square footage. Thus, if you use one of five rooms for your business, the business portion is 20 percent. If you run you r business out of a room that's 10 by 12 feet, and the total area of your home is 1,200 square feet, the business-space factor is 10 percent.

An extra computation is required if your business is a home day care center. This is one of the exempted activities in which the exclusive use rule doesn't apply. Check with your tax preparer and the IRS for an exact determination.

If you're a renter, you can deduct the part of your rent that is attributable to the business share of your house or apartment. Homeowners can take a deduction based on the depreciation of the business portion of their house.

There is a limit to the amount you can deduct. This is the amount equal to the gross income generated by the business, minus those home expenses you could deduct even if you weren't operating a business from your home. As an example, real estate taxes and mortgage interest are deductible regardless of any business activity in your home, so you must subtract from your business' gross income the percentage that's allocable to the business portion of your home. You thus arrive at the maximum amount for home-related business deductions.

If you are self-employed, you claim your business deductions on Schedule C, Profit (or Loss) for Business or Profession. The IRS emphasizes that claiming business-at-home deductions does not automatically trigger an audit of your tax return. Even so, it is always wise to keep meticulously within the proper guidelines, and of course keep detailed records if you claim business related expenses when you are working out of your home. You should discuss this aspect of your operation with your tax preparer or a person qualified in the field of small business tax requirements.

If your business earnings aren't subject to withholding tax, and your estimated federal taxes are $100 or more, you'll probably be filing a Declaration of Estimated Tax, Form 1040-ES. To complete this form, you will have to estimate your income for the coming year and also make a computation of the income tax and self-employment tax you will owe. The self-employment taxes pay for Social Security coverage.

If you have a salaried job covered by Social Security, the self-employment tax applies only to the amount of your home business income that, when added to your salary, reaches the current ceiling. When you file your Form 1040-ES, which is due April 15, you must make the first of four equal installment payments on your estimated tax bill.

Another good way to trim your taxes is by setting up a Keogh plan or an Individual Retirement Account. With either of these, you can shelter some of your home business income from taxes by investing it for your retirement.